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C O N F I D E N T I A L SECTION 01 OF 03 PANAMA 001948

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SUBJECT: PANAMA TURNING TOWARD TAIWAN

Classified By: Charge d'Affaires Luis Arreaga for reasons 1.4 (b)&(d)

Summary

1. (C) Panamanian President Martin Torrijos's last-minute September 22 announcement that he would attend a September 26 Taiwan-Central America Summit in Managua comes on the heels of First Vice President and Foreign Minister Samuel Lewis's September 19 remarks to Chinese Foreign Minister Li Zhaoxing in New York that Panama plans no changes in its relations with Taiwan. These two events confirm the picture emerging from recent meetings with Taiwan diplomats in Panama that the GOP is moving closer to Taiwan, apparently reversing what had been a recent trend toward China. According to Taiwan Embassy officials, the GOP has made a series of public and private overtures since July that have left the Taiwans hopeful of improved relations. The Taiwans cite several GOP assurances, starting with the GOP's spin on its late-July refusal to receive an early September visit by Taiwan President Chen Shui-bian. The assurances include an apparent 180-degree public turn-about by First Lady Vivian Torrijos in support of the Taiwan-funded Museo del Tucan and informal GOP offers to resume budget information-sharing to earmark Taiwan aid, both of which were in deep-freeze for most of the past year. The Taiwans also claim that Panama balked at an alleged PRC ploy to swap concessions in the one-year-long Panama Ports Corporation (PPC) investment dispute for diplomatic recognition. End Summary.

High-Level Signals

2. (C) On August 19, PolOff met with Cristobal Song Maw Tsaurof the Taiwan Embassy and Jose Chong-Hon, President of the pro-Taiwan Chinese Panamanian Cultural Center. Tsauro said that the Taiwan Embassy had received public and private "signals" from "high-level" sources in the GOP that the Torrijos administration has taken initial steps toward reestablishing the warm relations that had existed between Taiwan and the former Moscoso administration. Taiwan Political Counselor Jaime Chen (Chen Hsin Dong) confirmed this view in an August 26 meeting with PolOff.

3. (C) Note: The Torrijos administration has publicly and privately held Taiwan Embassy officials at arms length since taking office. Millions of dollars in Taiwan aid money was personally appropriated by former President Mireya Moscoso and her sister, some of which was used to build the now empty Museo del Tucan. President Torrijos, opposition leader during the Moscoso years, viewed Taiwan's support for Moscoso as a personal political slight. End Note.

Chen's Trip Blocked

4. (C) Panamanian press July 29 quoted Foreign Minister Samuel Lewis that the GOP had turned down Taiwan President Chen Shui-bian's offer to visit Panama on September 1 as part of his Central American tour because the trip would interfere with President Torrijos' one-year inauguration anniversary celebrations. According to Tsauro, when the Taiwans sought an explanation, "high-level" GOP officials told them that the time was "not yet right" to receive President Chen, but not to worry. Tsauro understood this message to mean that the Torrijos administration was not ready to confront potential public disapproval over the still unresolved Moscoso-era corruption scandal, but that the GOP had no plans to shift diplomatic recognition to China. (Note: During his mid-September trip to the opening of the UN General Assembly, FM Lewis met in New York with PRC Foreign Minister Li Zhaoxing to discuss strengthening commercial ties. According to the GOP, Lewis told Li that he did not foresee changes in GOP's current diplomatic relationship with Taiwan and commercial relationship with the PRC. End Note.) After a trip to Singapore in early September, Minister of the Presidency Ubaldo Real quietly stopped over in Taipei, possibly to meet with Taiwan officials regarding Torrijos's up-coming trip to the September 26 Taiwan-Central America Summit in Managua.

Spanish Showdown

15. (C) Both Jaime Chen and Tsauro said that a decisive behind-the-scenes meeting between the GOP, PPC, and PRC officials took place in Spain (possibly Madrid) in July. With PRC officials apparently present, the GOP and PPC allegedly discussed a final monetary figure that would constitute PPC's settlement of a dispute with the Torrijos government about the sweetheart investment deal PPC received from the Moscoso administration, allegedly in return for bribes. The Moscoso government exempted Hutchinson-Whampoa from an estimated \$11 billion in taxes over 40 years and gave it the land and port facilities that it occupied for nothing. At Madrid, China's attempt to leverage the deal by asking Panama to confer diplomatic recognition on China for an undisclosed settlement appears to have backfired. (Comment: PPC is owned by the Hutchinson-Whampoa Corporation, in which the PRC government is an important stockholder. Minister of Trade and Industry Alejandro Ferrer, the GOP negotiator, has championed the GOP cause in correcting what he sees as an unjust deal. Ferrer told Ambassador on September 19 that he was able to hold firm in negotiating with PPC because he had strong backing from Torrijos and because he was convinced that he was doing the right thing for the Panamanian people to reverse a deal that had been strongly opposed by the public. A crass attempt to trade recognition for a PPC payoff would likely have angered Ferrer. End Comment.)

Panama Bests PPC

16. (C) The Taiwans said that the Panamanians refused Chinese overtures but agreed to a deal with PPC which would be released piecemeal to the press, possibly to save face for PPC and to show the GOP holding a hard line. Press reports of the negotiations seem to bear this out. At the time of PolOff's August meetings with the Taiwans, the press reported the PPC offer hovered at \$53 million. It has settled at \$102 million in addition to payment of annual port facility fees of \$22.2 million plus 10% of annual revenue and a PPC agreement to invest a further \$1 billion that will allow them to remain competitive with the other port facilities. This settlement amounts to a major victory for Ferrer and the GOP. According to Tsauro, the PRC openly used PPC to leverage its interests in Panama. Tsauro winced at the mention of Taiwan-based Evergreen's alliance with China-based COSCO, commenting that Taiwanese investment in mainland China was "our problem."

Museo del Tucan

17. (C) In early August, First Lady Vivian Torrijos announced her support for the movement of one of Panama's most important collections of archaeological and anthropological artifacts from the decrepit Reina Torres de Arauz Museum, to the new Taiwan-funded Museo del Tucan, which has stood empty since construction was completed in 2004. When President Torrijos was first elected, First Lady Vivian Torrijos was an outspoken critic of the Museo del Tucan. The empty museum, built by the Moscoso administration with Taiwan-donated money, was conceived as a children's museum, but the money to fill its elegant structure with art was effectively skimmed and embezzled by the former administration. Tsauro said that his Embassy saw Vivian Torrijos' recent change of heart as a positive public sign that the GOP was tacitly dropping its antagonism toward Taiwans.

Budget Sharing for Future Aid

18. (C) Jaime Chen said that recently the GOP had expressed interest in sharing budget information for the purpose of planning what aid Taiwan could offer Panama in the future. According to Jaime Chen, prior to the Torrijos administration taking office in 2004, the Panamanian government regularly shared its proposed budget plan with the Taiwans in the planning stages. The Taiwans would send this information back to the Legislative Yuan. The Taiwans and Panamanians would then decide how much Taiwan would donate to Panama and how to spend it. Chen said that this process was transparent and therefore should have exonerated the Taiwans from any suspicion of involvement in Moscoso's appropriation of Taiwan charitable donations. (Other Taiwan diplomats have acknowledged that Moscoso pressed them for a bribe, which they paid.) Torrijos completely shut down budget planning after September 1, 2004.

Party Lines

19. (C) The Taiwans understand that, for now, the GOP wants to maintain a "low profile" relationship with Taiwan, fearing that demonstrably warm relations with Taiwan would still be a contentious issue in the Panamanian press. Though the Taiwans are currently hopeful that their relationship with the GOP is on the upswing, they appear to take even positive

signs with a grain of salt. The Taiwans believe a number of key GOP advisors are pushing a pro-PRC agenda, including presidential advisor and former Noriega-era Foreign Minister Jorge Ritter, Ministry of Foreign Affairs Foreign Relations Director Dario Chiru (who served in Beijing and prior to his current position started a business and government exchange program with China,) and possibly Oyden Ortega (a former Minister of Foreign Relations and Labor Minister under Noriega, also one-time legislator since 1989, considered to be a moderate PRD). Foreign Minister Sam Lewis has played a somewhat enigmatic role, identified by some as supporting the pro-PRC group behind the scenes while supporting the GOP line on Taiwan in public. (There was speculation that diplomatic relations with the PRC would benefit Lewis's banana box business because the PRC had offered to buy up surplus Panamanian bananas.) Muddying the waters, two of Lewis's closest MFA staff, IO Director Javier Bonagas and Foreign Minister's Office Director Guido Fuentes (a rising PRD) maintain good relationships with the Taiwans according to Jaime Chen.

Comment

10. (C) The Taiwans' message with Embassy contacts over the past few weeks has been consistent--they believe the GOP is planning to patch-up strained relations with Taiwan. They still fear that the GOP ultimately will shift recognition to the PRC. The GOP seems to be moving to stabilize its traditionally strong foreign relationships to shore up its currently weakened domestic political position (one August poll put Torrijos's approval rating at 34%.) Taiwan policy is part and parcel of this strategy. Although the possibility of a shift to the PRC in the long-term cannot be ruled out, Panama has no real financial incentive to do so. Chinese investment in Panama and its use of the Canal will continue to grow regardless of diplomatic ties but Taiwan aid will flow only as long as Panama maintains diplomatic relations with Taiwan. As FM Lewis told Panamanian television a few days ago, it serves Panama's interests to maintain its current position on this matter. Rumblings that began even before Torrijos was elected of a Torrijos-era shift toward China based on the PRD's leftist leanings have not been totally disproved. But they contrast with Torrijos's pragmatic, close-lipped approach to the Taiwan-China issue. What has been proved is the deftness with which the Panamanians have leveraged the issue thus far.

ARREAGA